



## Quest Diagnostics Earnings Per Share Increase 70% in Third Quarter 2001

October 18, 2001

TETERBORO, N.J., Oct. 18 /PRNewswire/ -- Quest Diagnostics Incorporated (NYSE: DGX), the nation's leading provider of diagnostic testing, information and services, announced that for the third quarter ended September 30, 2001, net income was \$50.1 million, or \$0.51 per diluted share, up 70% from the \$28.7 million, or \$0.30 per diluted share, reported in 2000. The company estimates that earnings were reduced by \$0.03 per diluted share as a result of the tragic events of September 11. Cash earnings, or earnings before amortization of intangible assets, rose to \$0.61 per diluted share from \$0.41 per diluted share for the 2000 period.

Third quarter revenues of \$903 million grew by \$53 million, or more than 6%, over last year, primarily driven by improved revenue per requisition. The revenue impact of the September 11 tragedy was approximately \$8 million, or 1%. Clinical testing volume, measured by the number of requisitions, increased approximately 2% over the prior year period, excluding the impact of the tragedy and adjusting for business contributed to unconsolidated joint ventures. As a result, reported volume during the third quarter equaled the prior year's level.

"The strong results reflect continued improvement in operating performance and actions taken to strengthen our balance sheet," said Kenneth W. Freeman, Chairman and Chief Executive Officer. "Our business, like many others in the New York metropolitan area, was impacted by the tragic events of September 11. The focused efforts of our employees, coupled with our logistics capability, geographic breadth and scale enabled us to mitigate what could have otherwise been a much more severe impact to our business and our customers. We now expect full-year 2001 earnings per share before special items to grow more than 65% from last year and are comfortable with the current consensus of earnings per share estimates of \$0.48 for the fourth quarter, as published by First Call. In addition, we continue to expect to deliver earnings growth in excess of 30% in 2002."

Earnings before interest, taxes, depreciation, amortization and special items (adjusted EBITDA), were \$142 million, or 15.7% of revenues, compared to \$120 million, or 14.1%, for the prior year period. The increase in adjusted EBITDA was due to the company's revenue growth and improved operating performance.

Days sales outstanding were 53 days, compared to 54 days a year ago. Bad debt was 6.1% of revenues in the quarter, compared to 6.8% in the prior year period. The company ended the quarter with nearly \$240 million in cash and no borrowings outstanding under its \$325 million revolving credit facility. Capital expenditures totaled \$32 million for the quarter.

For the first nine months of 2001, income before special items increased to \$136.6 million, or \$1.40 per diluted share, compared to \$78.0 million, or \$0.83 per diluted share, in 2000. Revenues increased by \$133 million to \$2.7 billion. Adjusted EBITDA was \$413 million, or 15.2% of revenues for the nine-month period, compared to \$347 million, or 13.4% a year ago. Capital expenditures for the nine-month period totaled \$110 million.

Quest Diagnostics will discuss results for the third quarter during a conference call on October 19 at 8:00 A.M. Eastern Time. To hear a simulcast of the call over the Internet, or a replay, registered analysts may access StreetEvents at: <http://www.streetevents.com> and all others may access the Quest Diagnostics website at: <http://www.questdiagnostics.com>. In addition, a replay of the call will also be available from 10 A.M. on October 19 through 5 P.M. on October 22 to investors in the U.S. by dialing 800-754-7906. Investors outside the U.S. may dial 402-220-0366. No password is required for either number.

Quest Diagnostics is the nation's leading provider of diagnostic testing, information and services with \$3.4 billion in annual revenues. The company's diagnostic testing yields information that enables health care professionals and consumers to make better decisions to improve health. Quest Diagnostics offers patients and physicians the broadest access to diagnostic testing services through its national network of approximately 30 full-service laboratories, 150 rapid response laboratories and more than 1,300 patient service centers, where specimens are collected. Quest Diagnostics is the leading provider of esoteric testing, including gene-based testing, and is the leader in routine medical testing, drugs of abuse testing, and non-hospital-based anatomic pathology testing. Through partnerships with pharmaceutical, biotechnology and information technology companies, Quest Diagnostics provides support to help speed the development of health care insights and new therapeutics. Additional company information can be found on the Internet at: <http://www.questdiagnostics.com>.

The statements in this press release which are not historical facts or information may be forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Certain of these risks and uncertainties are listed in the Quest Diagnostics Incorporated 2000 Form 10-K and subsequent filings.

Tables follow

### Quest Diagnostics Incorporated and Subsidiaries

#### Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2001 and 2000

(in millions, except per share data)

	Three Months Ended September 30, 2001		Nine Months Ended September 30, 2001	
	2001	2000	2001	2000
Net revenues	\$903.2	\$850.2	\$2,717.3	\$2,584.8
Costs and expenses:				

Cost of services	535.6	504.7	1,614.0	1,554.2
Selling, general and administrative	251.0	251.2	760.3	753.9
Interest expense, net	14.8	29.5	58.0	89.4
Amortization of intangible assets	11.4	11.5	34.7	35.4
Provision for special charges	--	--	6.0	2.1
Minority share of income	2.9	2.1	6.8	7.5
Other, net	(2.4)	(2.8)	(3.6)	(5.1)
Total	813.3	796.2	2,476.2	2,437.4
Income before taxes and extraordinary loss	89.9	54.0	241.1	147.4
Income tax expense	39.8	25.3	108.1	70.7
Income before extraordinary loss	50.1	28.7	133.0	76.7
Extraordinary loss, net of taxes	--	--	(21.6)	--
Net income	\$50.1	\$28.7	\$111.4	\$76.7
Income before extraordinary loss and special charges	\$50.1	\$28.7	\$136.6	\$78.0
Basic net income per common share:				
Income before extraordinary loss	\$0.54	\$0.32	\$1.43	\$0.86
Net income	\$0.54	\$0.32	\$1.20	\$0.86
Income before extraordinary loss and special charges	\$0.54	\$0.32	\$1.47	\$0.87
Diluted net income per common share:				
Income before extraordinary loss	\$0.51	\$0.30	\$1.37	\$0.82
Net income	\$0.51	\$0.30	\$1.14	\$0.82
Income before extraordinary loss and special charges	\$0.51	\$0.30	\$1.40	\$0.83
Cash earnings per diluted share	\$0.61	\$0.41	\$1.71	\$1.18
Weighted average common shares outstanding - basic	93.4	89.9	92.6	89.1
Weighted average common shares outstanding - diluted	98.0	95.8	97.3	93.7
Adjusted EBITDA	\$141.8	\$119.6	\$413.0	\$346.9

Quest Diagnostics Incorporated and Subsidiaries

Consolidated Balance Sheet Information  
September 30, 2001 and December 31, 2000  
(in millions)

September 30,      December 31,  
2001                      2000

## Assets

Cash and cash equivalents	\$238.9	\$171.5
Accounts receivable, net	513.6	485.6
Intangible assets, net	1,282.7	1,261.6
Other assets	898.3	945.8
Total assets	\$2,933.5	\$2,864.5

## Liabilities and Stockholders' Equity

Short-term debt	\$280.6	\$265.4
Long-term debt	677.9	760.7
Other liabilities	732.1	807.6
Common stockholders' equity	1,242.9	1,030.8
Total liabilities and stockholders' equity	\$2,933.5	\$2,864.5

## Notes to Financial Tables

### 1) Results for 2000 included the effects of testing performed by third

parties under the Company's laboratory network management arrangements. As laboratory network manager, Quest Diagnostics included in its consolidated revenues and expenses the cost of testing performed by third parties. This treatment added \$2.0 million and \$48.8 million to both reported revenues and cost of services for the three and nine months ended September 30, 2000, respectively. This treatment also served to increase cost of services as a percentage of net revenues and decrease selling, general and administrative expenses as a percentage of net revenues.

### 2) During the second quarter of 2001, the Company refinanced the

majority of its indebtedness. The extraordinary loss of \$36.0 million (\$21.6 million, net of tax), represents the write off of deferred financing costs, and tender premiums paid in connection with extinguishing the debt that was refinanced.

### 3) In conjunction with the Company's debt refinancing during the second

quarter of 2001, the Company recorded a special charge of \$6.0 million (\$3.6 million, net of tax) representing the costs to settle existing interest rate swap agreements on its debt which was refinanced. During the second quarter of 2000, the Company recorded a net special charge of \$2.1 million (\$1.3 million, net of tax). Of the special charge, \$13.4 million represented the costs to cancel certain contracts that management believed were not economically viable as a result of the SBCL acquisition. These costs were principally associated with the cancellation of a co-marketing agreement for clinical trials testing services. These charges were partially offset by a reduction in reserves attributable to a favorable resolution of outstanding claims for reimbursements associated with billings of certain tests.

### 4) Depreciation expense totaled \$25.7 million and \$21.9 million for the

three months ended September 30, 2001 and 2000, respectively and \$73.3 million and \$65.4 million for the nine months ended September 30, 2001 and 2000, respectively.

5) On May 8, 2001, the Company announced a two-for-one stock split

effected by the issuance on May 31, 2001 of a stock dividend of one new share of common stock for each share of common stock held by stockholders of record on May 16, 2001. All references to shares and per share data have been restated to reflect the stock split for all periods presented.

6) Net income per common share is computed by dividing net income less

dividends on preferred stock (approximately \$30 thousand per quarter) by the weighted average number of common shares outstanding. Potentially dilutive common shares primarily represent stock options.

7) Cash earnings per common share is calculated as cash earnings less

preferred dividends, divided by the diluted weighted average common shares outstanding. Cash earnings represents income before extraordinary loss, special charges and amortization of all intangible assets, net of applicable taxes.

8) Adjusted EBITDA represents income before extraordinary loss, special

charges, income taxes, net interest expense, depreciation, and amortization. Adjusted EBITDA for 2000 also excludes \$2.7 million and \$7.2 million, respectively, of costs associated with the SBCL integration plan which were included in operating costs and expensed as incurred during the three and nine months ended September 30, 2000.

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